

would not only be economically sound but it would make moral sense as well."

It is certainly encouraging to find such growing support from leading urban economists for a turn towards site-value taxation. Is there much likelihood of political support? Although there are vast problems to be overcome, particularly legislative restrictions at the state level, it is known that facts about the advantages of property tax reform are now reaching Senators and Congress men. In 1971 for example a background study report on "Property Taxation: Effects on Land Use and Local Government Revenues" was prepared for the Sub-Committee on Inter-governmental Relations by the Congressional Research Service. Among the conclusions in that report was the opinion that "on balance, the idea (land-value taxation) seems to be worthy of a serious consideration and a wider trial in this country than it has had." The research document carefully detailed most of the advantages of the land tax system and although a little guarded in its conclusions categorically stated that with realistic valuations of land, there would be an adequate tax base to more than

cover present needs. All this is to the good but it remains to be seen whether appropriate executive action will be taken.

With the benefits of land taxation now being seen more widely in a role of helping cities and local governments out of their revenue and urban blight problems, the other benefits - of far greater value to the economy as a whole - need to be stressed. The fact remains that land-value taxation is and always has been a truly progressive path to follow to eradicate poverty itself. Meanwhile it is most encouraging that through the work of conferences and research projects the advantages of site taxation are being appreciated by a wider and more influential circle of people.

In addition, the *Nation's Cities* report drew attention to a wide range of other managerial and administrative improvements that cities could undertake to help themselves. Limitation of space precludes an examination of these here but the full report is strongly recommended as essential reading for those interested in the future of the cities and their government.

LAND VALUE TAXATION— SOME QUESTIONS ANSWERED

Land-value taxation, sometimes called site-value taxation, is being examined by economists and state and local government opinion makers, as an alternative to the ad valorem property tax. In what follows, Richard W. Lindholm has answered basic questions concerning a property tax limited to the site value of land. (Adapted from an article in The American Journal of Economics & Sociology, April 1972, published by the Robert Schalkenbach Foundation, New York.)

◆Why is the exemption of personal property and structures and a tax on land only, better than the present system?

a. It avoids the very serious problem of setting the depreciated value of industrial buildings and equipment.

b. It reduces very sharply the job of assessment.

c. It takes the burden of the property tax off value created by individual effort and places it on value created by society.

◆Is it right to tax one kind of capital value (land) and not other types?

This is already taking place. It was begun when intangibles, certain types of personal property and special properties, were taken off the tax rolls or taxed at lower rates. It also exists in different excise tax rates on different products and in lower income tax rates on capital gains and the exemption of interest

on municipal securities from the federal income tax.

The taxation of the capital value of structures without taxing the capital value of jewellery, stocks and bonds, deposits, insurance and all personal property places a heavier tax burden on the necessity, housing, and on buildings required for retailing and manufacturing than on other assets. On the other hand, the taxation of land acts to decrease the cost of land needed and used by the amount of the capitalized value of the land tax.

Therefore, a land only property tax does not increase the cost of the necessity, land, because land, unlike capital, does not have a cost of production while the removal of the capital value tax on buildings and personal property stimulates economic development. The price of land is a result of the productivity of society arising from the application of brains and brawn. Land rent and land prices together only perform the function of rationing a scarce resource and not that of meeting costs of production as is the case of the price of a man-produced good or service.

◆Doesn't the land tax increase the costs of farming and increase the tax burden of farmers?

No, it decreases the cost of buying land used in farming and increases the ability of workers to buy farm and forest products. The land tax on agricultural and forest land holds down rising land prices and reduces the income and sales taxes that have to be paid by owners of land and the other consumers of farm and forest products. It also reduces the costs of owning farm equipment, inventories and

structures, for these would no longer be taxed.

◆How have programmes of special aid for agriculture and the cities affected land prices?

All government programmes which extend direct assistance to particular areas raise land prices. Therefore, much of the intended benefit in lower prices or higher earnings are incorporated into gains for land-owners. High prices for farm land have eaten up most of the higher income from farm operations that agricultural price support payments were supposed to provide.

◆Why is the exemption of structures and a higher tax on land better than the way it is being done now?

The answer here is that in addition to the answer to the first question, it emphasizes the good effect a land tax has on the economic use of land. Land owners cannot afford to let land stand idle and pay a substantial tax. The result is that those unable or unwilling to use land fully will sell it to those able and willing to make full use of it. Land becomes more productive while tending to fall in price, for the increase in the use of each unit of land is the equivalent of increasing the quantity of land. Holding land for ransom no longer pays.

◆How would a land tax that replaces existing property taxes work in the cities?

It is the only urban tax that uses a base that can't leave town. The land tax encourages economic use of land space in the city. Business firms and income earners are not induced to leave town as they are when urban sales or income taxes are increased. Instead, under a land tax business and personal investments within the city limits are encouraged. This works to reduce urban sprawl and to increase the efficiency of the city as an economic unit.

◆Won't the land tax eliminate city open spaces?

Yes and No. Yes, it will cut back sharply on vacant lots and incompletely used land throughout the metropolitan area. No, but the open spaces will be publicly-owned and will include more developed parks and fewer asphalt parking lots and most of the rubbish-filled vacant lots will be eliminated.

◆Is a land tax a progressive or a regressive tax?

It is a progressive tax because those able to withhold land waiting for higher prices are generally high income receivers. A study in Milwaukee, Wisconsin, showed that the top ten per cent of the income receivers would pay 53 per cent of the land tax.

There is no possible way to pass a land tax forward in higher prices. Because land taxes do not increase land costs to builders of new facilities, they cannot be passed on to renters and consumers as can taxes on structures or sales or corporate profits. This situation relative to land taxes arises because land does not have a cost of production. Also, the quantity of land

does not materially increase or decrease with a change in price.

◆Why do property tax studies demonstrate that many assessors under the present property tax tend to put a very low value on land and particularly on land held in large parcels?

This practice arises from three basic causes. These are:

1) A tendency to confuse the property tax with the income tax and therefore to grossly under-value under-used land that is not bringing in enough net revenue to pay the full tax on its market value.

2) Because of assessor training and tradition they emphasize the value of improvements. As a result, there is a predisposition to use a rather elaborate set of procedures to place an excessive value on structures.

3) Land holdings, particularly large parcels, are frequently concentrated in the hands of politically powerful individuals who are able to influence valuations downward. This is much easier to do without attracting attention when properties other than land provide a very large portion of the total property tax base.

◆What do we know about how property tax payments would be redistributed if the base consisted of land only?

The detailed Milwaukee, Wisconsin, study showed that in a large city:

1) Idle land, parking lots, gas stations, slums, and other decaying, obsolescent or ill-advised buildings that add little or nothing to the value of vacant land would pay in total about 50 per cent more.

2) No change would occur in tax payments where the ratio of improvements to land is close to the city average of two to one.

3) A decrease of 40 to 75 per cent would be effected in taxes paid on good homes, apartments, office buildings and commercial and industrial structures where improvement value is four times or so the land value.

◆Aren't these shifts too great for society to bear except in a serious crisis?

The change would be best accomplished in a previously-established series of steps that might cover a period as long as five years. This is a procedure well established in modifying tax legislation. The use of this approach here would bring about the necessary adjustment with an annual price and income shift less than has been experienced through price changes due to changing economic conditions during the 1966-71 period. It is also true that having the change cover a number of years will give assessors an opportunity to bring many land assessments up closer to highest and best use values.